

Virgin Aviation Services Limited

Directors' report and financial statements

29 February 2004

Registered number: 1927016



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements of the Company for the 10 month period ended 29 February 2004.

Change of accounting reference date

The Company changed its accounting reference date for administrative reasons to 28 February on 12 February 2004. Comparative amounts are stated for the year ended 30 April 2003.

Principal activities

The principal activity of the Company during the 10 month period was that of a holding company.

Directors and directors' interests

The directors of the Company during the 10 month period were as follows:

Sir RCN Branson (Chairman)
FE Brandon-Farrow
S Murphy
M Poole
SB Ridgway
K Singh
JH Southern
PT Tan
TO Thoeng

R Segrant (Alternate for TO Thoeng)
KH Leong (Alternate for K Singh)

None of the directors who held office at the end of the period had any disclosable interest in the shares of the Company or other group companies.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

Review of the business and results

The loss for the 10 month period ended 29 February 2004 reflects another challenging period for the Company. Both the level of business and the period end financial position remain within acceptable limits given the exceptional events during the period, however, the directors are taking measures to improve from the present level of activity.

The combination of global economic downturn, ongoing global terrorist threat, the war in the Middle East, and the impact of Severe Acute Respiratory Syndrome (SARS) in Asia had a severe effect on the US freight handling operation from which the Company derives management fee income. This operation continued to make a loss and, as the management fee is directly proportional to the result of this operation, has resulted in a charge for the period.

On 31 August 2004 the Company disposed of its 50% cargo handling joint venture investment in Plane Handling Limited to its joint venture partner, Go-Ahead Group plc. The total consideration received by the Company for the disposal was £20 million.

The results for the period are set out on page 5 of the financial statements.

Dividends

An interim dividend of £nil (2003: £9,000,000) was declared and paid during the period. The directors do not recommend the payment of a final dividend for the period (2003: £nil).

Directors' report (continued)

Auditors

The members of the Company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and re-appointing auditors annually. This last resolution will lead to the continuing appointment of KPMG LLP as auditors of the Company until further notice.

By order of the Board



IMJ de Sousa
Company Secretary

120 Campden Hill Road
London
W8 7AR

30 November 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors, having prepared the financial statements, note that the independent auditors are required by the Companies Act 1985 to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.



PO Box 695
8 Salisbury Square
London EC4Y ABB
United Kingdom

Report of the independent auditors to the members of Virgin Aviation Services Limited

We have audited the financial statements on pages 5 to 13.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 29 February 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

3 December 2004

Profit and loss account

for the 10 month period ended 29 February 2004

	Note	10 months ended 29 February 2004 £	Year ended 30 April 2003 £
Administrative expenses	4	(840,861)	(461,822)
Operating loss		(840,861)	(461,822)
Income from shares in joint venture		100,000	1,000,000
Interest receivable and similar income	3	153,266	537,603
(Loss) / profit on ordinary activities before taxation	4	(587,595)	1,075,781
Tax on profit on ordinary activities	5	131,278	(22,734)
(Loss) / profit for the financial period		(456,317)	1,053,047
Dividends paid and proposed	6	-	(9,000,000)
Retained loss for the financial period	11	(456,317)	(7,946,953)

There were no recognised gains or losses in the period other than the loss for the period. The loss for the period arises from continuing activities.

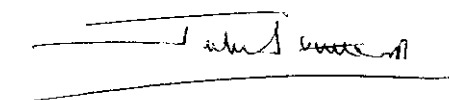
The notes on pages 7 to 13 form part of these financial statements.

Balance sheet

at 29 February 2004

	Note	29 February 2004 £	30 April 2003 £
Fixed assets			
Investments	7	1,000,000	1,000,000
Current assets			
Debtors	8	5,084,046	5,905,919
Creditors: amounts falling due within one year	9	(3,375,298)	(3,740,854)
Net current assets		<u>1,708,748</u>	<u>2,165,065</u>
Total assets less current liabilities		<u>2,708,748</u>	<u>3,165,065</u>
Net assets		<u>2,708,748</u>	<u>3,165,065</u>
Capital and reserves			
Called up share capital	10	100	100
Profit and loss account	11	<u>2,708,648</u>	<u>3,164,965</u>
Equity shareholders' funds	12	<u>2,708,748</u>	<u>3,165,065</u>

These financial statements were approved by the Board of Directors on 30 November 2004 and were signed on its behalf by:



J H Southern
Director

The notes on pages 7 to 13 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the Company's financial statements for the period under review:

Basis of preparation

The financial statements have been prepared under the historical cost convention, and on a going concern basis, in accordance with applicable accounting standards.

Under Financial Reporting Standard 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Virgin Atlantic Limited. The Company's cash flows are included within the consolidated cash flow statement of that company.

Under Section 228(1) of the Companies Act 1985, the Company is exempt from the requirement to prepare and deliver consolidated accounts on the grounds that it is a wholly owned subsidiary of Virgin Atlantic Limited, a company registered in England and Wales (see note 16). Accordingly these accounts present information about the Company as an individual undertaking.

Administrative expenses

Administrative expenses comprise management fees derived from the provision of freight handling and management services, together with overhead expenses, marketing and promotional costs.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Revenues and costs and the results of foreign operations are translated at the average rate for the period. Gains or losses on translation are included in the profit and loss account.

Deferred taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes (continued)

2 Staff numbers and costs

The Company had no employees during the period. (2003: nil).

3 Interest receivable and similar income

	10 months ended 29 February 2004 £	Year ended 30 April 2003 £
Interest receivable from group undertaking	153,266	537,603

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	10 months ended 29 February 2004 £	Year ended 30 April 2003 £
Handling management fees	561,083	435,928
Auditors' remuneration - audit	3,000	10,610
- other services	4,500	-
Exchange gains	9,289	(1,674)

The combination of global economic downturn, ongoing global terrorist threat, the war in the Middle East and the impact of Severe Acute Respiratory Syndrome (SARS) in Asia had a severe effect on the US freight handling operation from which the Company derives management fee income from its US freight handling operation. This operation made a loss this period and, as the management fee is directly proportional to the result of this operation, has resulted in a charge in 2004 and 2003.

Notes (continued)

5 Tax on profit on ordinary activities

	10 months ended 29 February 2004 £	Year ended 30 April 2003 £
UK corporation tax at 30% (2003: 30%):		
Amounts (receivable) / payable in respect of group relief at 30% (2003: 30%)	(131,278)	22,734
Total current tax	(131,278)	22,734

Group relief payments will be received or paid where losses are surrendered to or from other group companies.

The standard rate of UK corporation tax for the period is 30% (2003: 30%). The actual charges for the current and previous periods are lower than the standard rate for the reasons set out in the following reconciliation:

	10 months ended 29 February 2004 £	Year ended 30 April 2003 £
(Loss) / profit on ordinary activities before taxation	(587,595)	1,075,781
Tax at the standard rate at 30% (2003: 30%)	(176,278)	322,734
Factors affecting the tax charge for the period:		
Expenses not deductible for tax purposes	75,000	-
UK dividends received	(30,000)	(300,000)
Total current tax	(131,278)	22,734

Notes (continued)

6 Dividends

	10 months ended 29 February 2004 £	Year ended 30 April 2003 £
Dividends on equity shares:		
Ordinary – interim £nil (2003: £90,000) per share	-	9,000,000

7 Fixed asset investments

	Interest in joint venture £
Cost and net book value	
At 30 April 2003 and 29 February 2004	1,000,000

The investment represents the Company's interest at the period end, as follows:

	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Joint venture (see note 14)			
Plane Handling Limited (Accounting period ending 30 September)	England and Wales	Cargo handling	Ordinary 50%

8 Debtors

	29 February 2004 £	30 April 2003 £
Amounts owed by parent and fellow subsidiary undertakings	5,042,379	5,490,136
Other debtors	-	107,450
Prepayments and accrued income	41,667	308,333
	5,084,046	5,905,919

All amounts fall due within one year.

Notes (continued)

9 Creditors: amounts falling due within one year

	29 February 2004 £	30 April 2003 £
Amounts owed to parent and fellow subsidiary undertakings	651,348	778,838
Corporation tax	-	877,575
Group relief payable	2,665,603	2,026,756
Accruals and deferred income	58,347	57,685
	<hr/> 3,375,298 <hr/>	<hr/> 3,740,854 <hr/>

10 Share capital

	29 February 2004 £	30 April 2003 £
Authorised:		
100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid:		
100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>

11 Reserves

	Profit and loss account £
At 1 May 2003	3,164,965
Retained loss for the period	(456,317)
	<hr/>
At 29 February 2004	2,708,648 <hr/>

Notes (continued)

12 Reconciliation of movement in shareholders' funds

	29 February 2004 £	30 April 2003 £
(Loss)/profit for the financial period	(456,317)	1,053,047
Dividends paid	-	(9,000,000)
Net deduction to shareholders' funds	(456,317)	(7,946,953)
Opening shareholders' funds	3,165,065	11,112,018
Closing shareholders' funds	2,708,748	3,165,065

13 Contingent liabilities

The Company is party to a group letter of set-off covering certain of its bank accounts and is a guarantor under certain financing arrangements.

14 Joint venture

The Company's share of its joint venture's retained (loss)/profit and capital and reserves is as follows:

	29 February 2004 £	30 April 2003 £
Retained loss for the period	(297,867)	(168,298)
Capital and reserves	3,484,468	3,782,335

The joint venture (as detailed in note 7) has an accounting reference date of 30 September. Accordingly, the information covering the period October 2003 to February 2004, which has been included in the Company's financial statements for this joint venture, is based upon the management accounts of the joint venture.

Notes (continued)

15 Related party transactions

As at 29 February 2004, the Company's ultimate parent company was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir RCN Branson and his immediate family. The shareholders of Virgin Group Investments Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8.

The Company being a wholly owned subsidiary undertaking of Virgin Atlantic Limited, has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions with entities which form part of the group or investees of the group qualifying as related parties. These transactions have been disclosed in the consolidated financial statements of the intermediate holding company, Virgin Atlantic Limited which are publicly available (see note 16).

There are no other material transactions and balances by the Company with related entities which are required to be disclosed by Financial Reporting Standard 8.

16 Ultimate holding company

The ultimate holding company at 29 February 2004 was Virgin Group Investments Limited, a company registered in The British Virgin Islands.

As at 29 February 2004, Ivanco (No.1) Limited, a company registered in England and Wales, is the parent undertaking of the largest group of which the Company is a member and for which consolidated financial statements are drawn up. The smallest group of which the Company is a member and for which consolidated financial statements have been drawn up is Virgin Atlantic Limited, a company registered in England and Wales. Copies of the financial statements for both of these companies, together with those for Virgin Atlantic Limited, may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3UZ.